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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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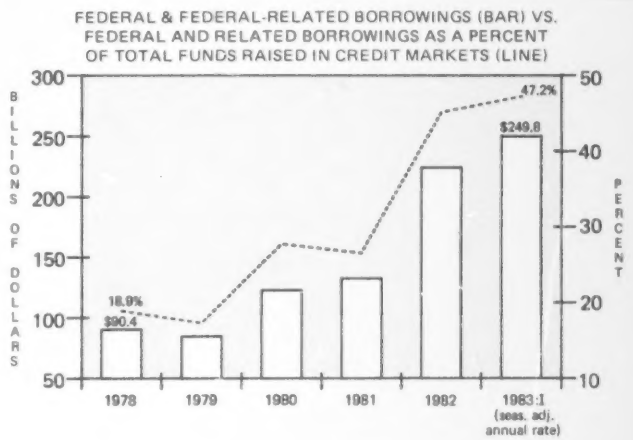
The Budget Deficit . . .

Of all the economic objectives outlined in the final communique of the recent Williamsburg Summit, perhaps the most difficult to achieve will be substantial reductions in government budget deficits. This is certainly true for the conference host, for despite ongoing Congressional and Administration wrangling and an unending stream of pronouncements that the Federal deficit must be curbed, if anything, precisely the opposite is occurring—red ink totals are soaring and future deficit estimates are being revised substantially higher. What this means is that Washington will continue to absorb record proportions of net private savings and credit market borrowings for the indefinite future, a tendency which, if left unchecked, will eventually derail either the recovery now underway or the hard won inflation rate progress of recent months.

A good example of the present budget predicament occurred in April, when several of the negative trends plaguing Federal finances came together to produce the first April deficit in almost 20 years. According to the Treasury Department, expenditures outran receipts by $3.3 billion during the month, a huge reversal when compared with the $9.7 billion budget surplus posted in April of last year. What is more, this brings the fiscal year-to-date red ink total to $132.5 billion, more than double the $62.2 billion deficit posted during the first seven months of fiscal year 1982—and indeed larger than the entire FY 1982 deficit.

What makes the April numbers particularly disturbing is that this is usually a surplus month, with receipts swollen by heavy individual income tax collections. But FY 1983 is anything but a normal year, on both the revenue and spending sides of the ledger. Take revenues, for example. Battered by double-digit rates of unemployment, the evaporation of a good-sized chunk of corporate profits and the deep cuts in personal income tax rates contained in the Economic Recovery Tax Act of 1981, personal income tax collections totaled $173.6 billion during the first seven months of fiscal 1983, or just about three per cent below comparable period, year-earlier levels. In April, the year-over-year shortfall widened even further; net collections totaled only a shade more than $35 billion during the month, 17 per cent below April, 1982 levels—and six per cent lower than the preceding, three-year April average.



. . . Looks Bigger Than Expected . . .

Nor has the pace of corporate tax collections fared any better; in fact, just the opposite. During the first seven months of fiscal 1983, net corporate tax receipts totaled $17.1 billion, or 43 per cent below comparable period, year-earlier levels. In April alone, corporate collections stood almost 44 per cent below the preceding three-year, April average. What is more, such taxes now account for only about eight per cent of total tax receipts, or well below the 15 per cent average which prevailed during the decade of the 1970s. All-in-all, total receipts through April were running six per cent lower than same period, fiscal 1982 levels, raising the distinct possibility that fiscal year-over-year collections will register an absolute decline for the first time in 12 years.

So, too, spending trends provide little cause for optimism. With defense spending surging higher, interest outlays on the ever-larger Federal debt growing and agriculture-related outlays much higher

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than originally anticipated, total Federal spending ran $48 billion ahead of year-earlier levels during the initial seven months of fiscal 1983. Stepped-up defense spending and debt service costs accounted for just about 40 per cent of the overall spending gain, while higher agricultural outlays accounted for an additional 15 per cent of the spending gain. And, with outlays associated with such domestic programs as extended unemployment insurance and Social Security continuing to rise, it is hardly likely that reductions in nondefense spending will help narrow the budget deficit anytime soon. Income security outlays advanced 13 per cent year-over-year, accounting for another 40 per cent of the spending gain.

Indeed, with agriculture-related outlays growing more rapidly than originally anticipated, the implementation of the withholding tax on interest and dividends sure to be postponed and windfall oil profits tax collections below expectations due to slumping oil prices, the entire fiscal 1983 deficit may exceed the Administration's current deficit prediction of $210.2 billion by some $10 to $15 billion. This means that Washington's borrowing needs will remain equally vast, absorbing record proportions of net private savings and, as shown in the chart on page 1, accounting for a record proportion of funds raised in the credit markets—a disturbing prospect for future interest rate stability

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 5/25/83	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	149.308	+ .594	+10.884
Loans to Depository Inst.	.951	– .123	– .095
Float	1.597	+ .037	– .370
Total Reserve Bank Credit	159.687	– .345	+ 9.772
Treasury Deposits with Federal Reserve Banks	2.966	– .165	– .057
Currency Outside Banks	141.235	– .103	+11.406
Member Bank Reserves:			
Required	37.640	– .124	– 1.297
Excess (Deficiency)	.408	+ .001	+ .309
Total Reserves Held	38.048	– .123	– .988
Net Borrowed Reserves	.072	+ .129	+ .599
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	107.950	– 1.717	+17.065

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M1	508.8	+ 13.2‡	+ 12.0‡
M2 (April '83)	2,072.7	+ 12.9	+ 12.9
M3 (April '83)	2,453.8	+ 8.7	+ 10.3
Domestic Nonfinancial Debt (1st Q'83)	4,855.3	+ 8.9	+ 9.8

†Seasonally adjusted.

*Seasonally adjusted annual rate.
‡Four-week moving average.

New York Money Market

Offering Rates 6/3/83	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	8.25%	8.35%	8.45%
* Federal Agencies	8.85	8.70	9.95
* Project Notes–Taxfree (46% Taxable Equivalent)	9.26	9.26	10.65
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	9.00	9.30	9.70

‡Finance Company Paper–Prime

5- 14 days	8.50%
15- 29 days	8.50
30- 59 days	8.75
60- 89 days	8.75
90-179 days	8.63
180-239 days	8.63
240-270 days	8.63

‡* Bankers' Acceptances

Jul.	8.75%
Aug.	8.75
Sep.	8.75
Oct.	8.75
Nov.	8.75
Dec.	8.75

‡Industrial Paper–Prime

30- 89 days	8.70%
90-120 days	8.70

†Federal Funds Effective Rate 8.70%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'83	$ 3,171	$ 3,108	$ 2,996
Gross National Product (1972 Dollars)*	1st Q'83	$ 1,486	$ 1,477	$ 1,471
Percent Change, Annual Rate	1st Q'83	2.5	– 1.1	– 5.1
Change in Consumer Prices (new series)*	Apr '83	7.2%	1.2%	2.4%
Change in Producer Prices*	Apr '83	– 1.2%	– 1.2%	1.2%
Civilian Employment (Thousands of Persons) †	May '83n	99,557	99,458	99,994
Unemployment as % of Civilian Labor Force †	May '83n	10.1%	10.2%	9.4%
Personal Income*	Apr '83	$ 2,679	$ 2,659	$ 2,536
Leading Indicators Composite Index (1967=100) †	Apr '83n	152.4	150.7	136.0
Industrial Production Index (1967=100) †	Apr '83	142.6	139.7	140.2
Net Change in Consumer Installment Credit †	Mar '83	$ 2.58	$ 0.74	$ 0.63
U.S. Merchandise Trade Balance †	Apr '83	–$ 4.60	–$ 3.63	–$ 0.50
Plant and Equipment Expenditures*	2nd Q'83	$302.20(a)	$302.25(a)	$323.22
Private Housing Starts (Thousands of Units)*	Apr '83	1,490	1,627	911
New Construction Expenditures*	Apr '83n	$ 248.0	$ 246.9	$ 226.1
Total Business Inventories †	Mar '83	$ 502.9	$ 508.5	$ 521.2
Total Business Sales †	Mar '83	$ 346.0	$ 339.8	$ 344.4

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

once private credit demands begin to revive.

. . . But Not The Money Supply

If today's credit market fears over prospects for future budget deficits and borrowings are appropriately placed, the excessive concern gripping the markets over recent M1 money supply trends may be less so. To be sure, the M1 money supply has increased by a seasonally adjusted $15 billion over the last four statement weeks, placing its year-to-date growth almost $17 billion above its eight per cent upper target boundary. This, in turn, has raised the specter of a tightening of the money and credit reins sometime soon, despite the fragility of the current economic recovery and the already lofty level of inflation-adjusted interest rates.

However, recent money supply developments may not be as ominous as a first glance would suggest. For while the seasonally adjusted money numbers have been ballooning, the unadjusted money numbers have been declining. Thus, over the same four-week period that adjusted M1 has risen by $15 billion, unadjusted M1 has dropped by more than $5 billion. In fact, while the seasonally adjusted M1 has advanced by more than $32 billion since the turn of the year, unadjusted M1 is actually lower by nearly $4 billion! H

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (5/18/83)	94,601	– 1,938	–39,037
New York City (5/18/83)	23,362	– 277	–11,800
Commercial Paper (5/18/83)	170,144	– 527	– 6,512*

*Series redefined: Data prior to December 1, 1982, are not strictly comparable to the data reported after that date.

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/18/83)	213,016	– 1,329	+ 4,650
New York City (5/18/83)	57,051	– 484	– 1,100

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/18/83)	498,408	– 623	+14,288
New York City (5/18/83)	113,894	– 238	+ 2,235

Financial Markets

	Friday 6/3/83	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.96%	+ .10	– 3.54
180-Day Bills†	9.30	+ .17	– 3.70
Longest Bills†	9.48	+ .14	– 3.82
Recent Issues:			
9⅞s 5/31/85	10.08	+ .15	
10¼s 3/31/87	10.40	+ .15	
10⅛s 5/15/93	10.85	+ .18	
10⅜s 11/15/12	10.95	+ .10	
Municipals:			
Bond Buyer–20 Bond Index* (6/2/83)	9.78%	+ .27	– 2.35
Blue List Total ($ Million)	$1,320	– $178	+ $129
30-Day Visible Supply ($ Million)	$2,894	– $450	+ $542
Total	$4,214	– $628	+ $671
Corporates:			
Moody's Aa Composite (6/2/83)	12.15%	– .04	– 2.88
30-Day Visible Supply ($ Million)	$590	– $170	– $1,390
Stocks:			
Dow-Jones Averages:			
Industrials	1,213.04	– 3.10	+ 408.06
Transportation	551.06	+ 5.96	+ 233.99
Utilities	129.61	– .51	+ 19.09
65 Stocks	478.64	+ .61	+ 163.15
Standard and Poor's 500 Stocks	164.42	– .04	+ 54.33
N.Y.S.E. Compusite Index	95.13	– .10	+ 31.71
N.Y.S.E. Avg. Daily Vol. for Week (000's)	82,935	–14,527	+ 36,940

* 46% Taxable equivalent 18.11%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 6/3/83	Week Ago
Overnight	8.75%	8.63%
1 month	9.19	9.00
3 month	9.38	9.31
6 month	9.63	9.50
1 year	9.88	9.69

EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	11.35%	11.15%
Long Term (7 to 15 yrs.)	11.45	11.25

FOREIGN EXCHANGE SPOT RATES New York Opening (6/3/83)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01970	50.76
Canada	.8131	1.2298
Denmark	.1096	9.1200
France	.1309	7.6395
Germany	.3931	2.5440
Italy	.0006631	1508.00
Japan	.004190	238.68
Mexico	.006689	149.50
Netherlands	.3503	2.8545
Switzerland	.4753	2.1040
U.K.	1.5650	.6390